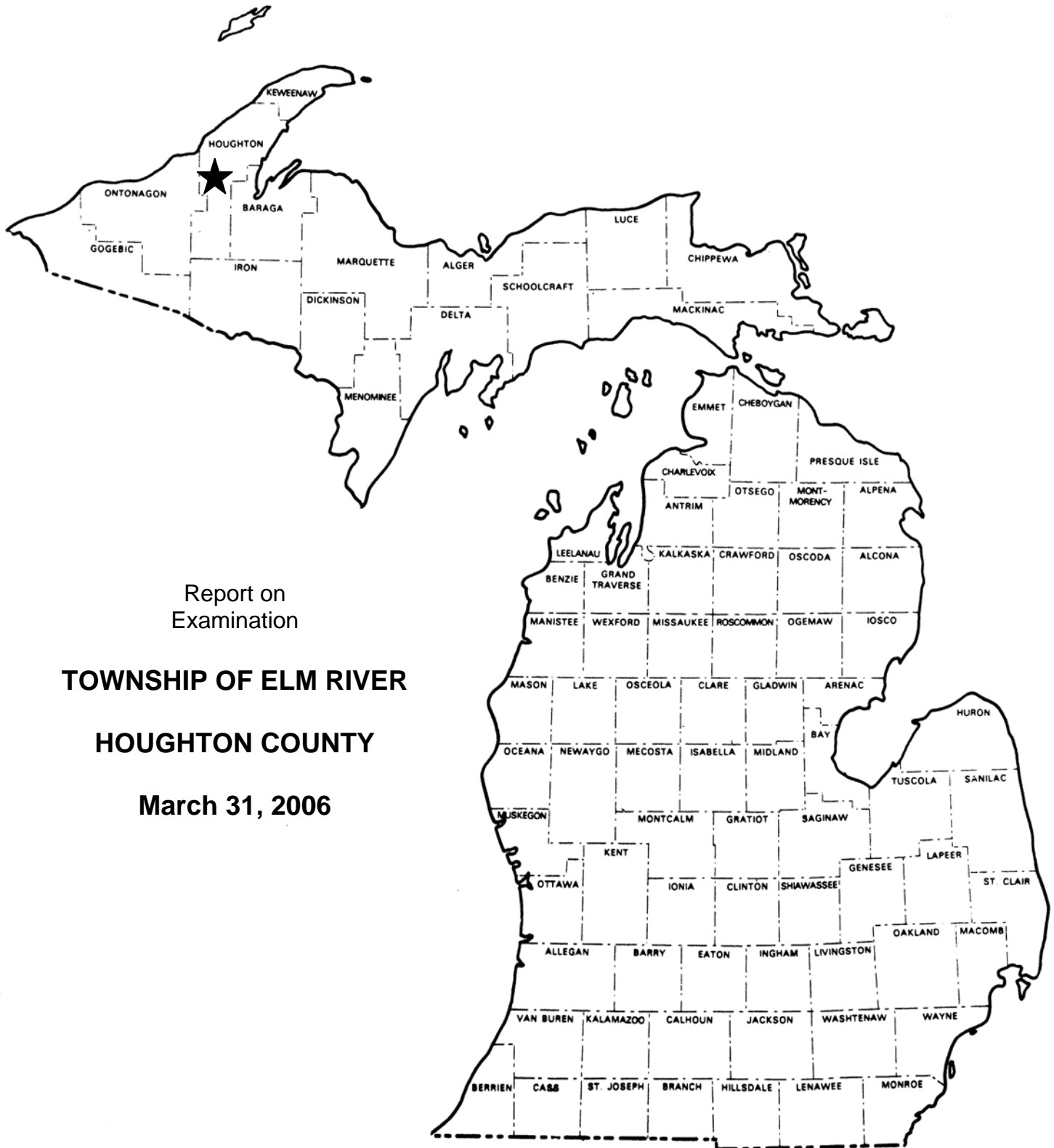


**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**



ELM RIVER TOWNSHIP--HOUGHTON COUNTY  
TOWNSHIP BOARD

Deborah Maki  
Supervisor

Robert Sibilsky  
Clerk

Rhoda Brandt  
Treasurer

Margaret Lindeman  
Trustee

James Saur  
Trustee

TOWNSHIP POPULATION--2000  
169

STATE EQUALIZED VALUATION--2005  
\$21,361,500



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

October 7, 2008

Township Board  
Township of Elm River  
32850 Highway M-26  
Toivola, Michigan 49965

RE: Unqualified Opinions on Basic Financial Statements Accompanied by Required  
Supplementary Information and Supplementary Information

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Elm River Township, Houghton County, Michigan, as of and for the year ended March 31, 2006, which collectively comprise the township's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Elm River Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Elm River Township, as of March 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2008, on our consideration of Elm River Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing,

and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

As discussed in Note J to the basic financial statements, the Township of Baraga has adopted Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*; Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*; Statement No. 36, *Recipient Reporting for Certain Shared Non-Exchange Revenues*; Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*.

The Management's Discussion and Analysis on pages 1 through 5 and the Budgetary Comparisons for Major Funds in Exhibits G through I are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Elm River Township's basic financial statements. The accompanying supplementary information in Exhibits I and J is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

# ELM RIVER TOWNSHIP--HOUGHTON COUNTY

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**ELM RIVER TOWNSHIP--HOUGHTON COUNTY**

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## TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the township as a whole and present a longer-term view of the township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the township's operations in more detail than the government-wide financial statements.

#### The Township as a Whole

Because this is the first year of implementation of Governmental Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior year information is available, comparative analysis of township data will be presented. The net assets are summarized below.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, and charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets-net or related debt) are considered restricted.

	Governmental Activities 2006
Current Assets	\$ 171,784
Noncurrent Assets	53,196
Total Assets	224,980
Current Liabilities	9,066
Long-Term Liabilities	-
Total Liabilities	9,066
Net Assets	
Invested in Capital Assets--Net of Debt	53,196
Restricted	40,254
Unrestricted	122,464
Total Net Assets	\$ 215,914

## TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets as of March 31, 2006, as again, this is the first year of the township's conversion to GASB Statement No. 34 provisions.

	Governmental Activities <u>2006</u>
Program Revenues	
Charges for Services	\$ 1,783
Operating Grants and Contributions	1,650
General Revenues	
Property Taxes	81,733
State-Shared Revenues	11,612
Unrestricted Investment Earnings	3,649
Other Revenue	2,458
Special Item--Loss on Disposal of Capital Assets	<u>(288)</u>
Total Revenues	<u>102,597</u>
Program Expenses	
General Government	53,408
Public Safety	20,951
Public Works	31,301
Other	<u>353</u>
Total Expenses	<u>106,013</u>
Change in Net Assets	(3,416)
Beginning Net Assets	<u>219,330</u>
Ending Net Assets	<u><u>\$ 215,914</u></u>



## TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### **Governmental Activities**

The township's total governmental revenues increased by \$47,462 and the expenditures increased by \$72,277 as follows:

	<u>Activities</u> <u>2004</u>	<u>Activities</u> <u>2006</u>	<u>Amount</u> <u>Difference</u>
Revenues			
Taxes	\$ 77,790	\$ 81,532	\$ 3,742
State Grants	16,204	13,262	(2,942)
Charges for Services		1,783	1,783
Interest and Rentals	2,318	3,649	1,331
Other	18,622	62,170	43,548
Total Revenues	<u>114,934</u>	<u>162,396</u>	<u>47,462</u>
Expenses			
General Government	45,698	52,038	6,340
Public Safety	13,545	15,151	1,606
Public Works	25,986	31,301	5,315
Recreation and Culture	6,337		(6,337)
Other		353	353
Capital Outlay		<u>65,000</u>	<u>65,000</u>
Total Expenditures	<u>91,566</u>	<u>163,843</u>	<u>72,277</u>
Excess of Revenues Over Expenditures	<u>23,368</u>	<u>(1,447)</u>	<u>(24,815)</u>
Beginning Fund Balance	<u>147,608</u>	<u>142,199</u>	<u>(5,409)</u>
Ending Fund Balance	<u>\$ 170,976</u>	<u>\$ 140,752</u>	<u>\$ (30,224)</u>

The tax revenue increased for the year as the township continues to have a growing tax base. While the millage has remained unchanged, the township has received additional revenue due to the growing tax base.

Most of the increase in expenditures was attributable to capital outlay for land and a building adjacent to the town hall. The building and most of the land was sold for \$60,000, with the township retaining part of the land.

#### **The Township's Governmental Funds**

Our analysis of the township's major funds begins with Exhibit C, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2006 include the General Fund, Fire Fund and the Liquor Law Enforcement Fund.

## **TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The General Fund pays for most of the township's governmental services. The most significant are for general government activities, which incurred expenditures of \$52,038 for 2006. These services are supported by the operating millages and state shared revenues. The Fire Fund accounts for fire tax revenue that is restricted for fire protection and other emergency health and safety services. The Liquor Law Enforcement Fund accounts for the distribution of state liquor law enforcement money that is restricted for enforcing the Liquor Control Act.

#### **General Fund Budgetary Highlights**

The Township Board amended the budget to take into account events occurring during the year, primarily the cutting of expenses across all departments and related budgets to try and provide a surplus for the Township this year. Over the course of the year, the Township Board amends the budget to take into account events during the year.

During 2006, the revenue budget for the General Fund did not change and remained at \$86,100, which was \$60,359 less than the actual revenues of \$146,459. The largest variance related to the net sale of capital assets in the amount of \$59,712.

The expenditure budget was did not change and remained at \$107,165. The actual expenditures were \$148,692. The primary reason for the expenditures exceeding the budget was related to the capital outlay purchase of \$65,000. All other activities of the General Fund were well within the budgetary constraints.

#### **Capital Asset and Debt Administration**

At the end of March 2006, the township's governmental funds had \$53,196 invested in a broad range of capital assets, including land, buildings, vehicles and equipment.

The township had no debt at the end of March 2006.

#### **Economic Factors and Next Year's Budgets and Rates**

The State of Michigan continues to experience budgetary problems which could impact future state shared revenue payments. Escalating fuel costs could affect tourism, reducing state sales tax revenues. Fuel costs are also a major factor in increasing costs to provide township services, such as refuse collection and disposal and fire services.

The Township's 2007 budget will remain primarily the same as 2006, except no major capital outlay expenditures are anticipated as there was for 2006, and budgeted revenues and expenditures were increased because of extra voted millages for increased operating costs.

## **TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Township Supervisor at 33607 Lake Gerald Road, Toivola, MI 49965.

**ELM RIVER TOWNSHIP--HOUGHTON COUNTY**  
**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
**March 31, 2006**

**EXHIBIT A**

	<u>Governmental Activities</u>
<b><u>ASSETS</u></b>	
Current Assets	
Cash	\$ 56,554
Investments	82,470
Delinquent Taxes Receivable	3,260
Due From County	18,706
Due From State	1,922
Due From Other Agencies	<u>8,872</u>
Total Current Assets	<u>171,784</u>
Noncurrent Assets	
Capital Assets--Net of Accumulated Depreciation	<u>53,196</u>
Total Noncurrent Assets	<u>53,196</u>
Total Assets	<u><u>\$ 224,980</u></u>
<b><u>LIABILITIES AND NET ASSETS</u></b>	
Current Liabilities	
Accounts Payable	\$ 1,603
Due to Other Agencies	7,343
Accrued Liabilities	<u>120</u>
Total Current Liabilities	<u>9,066</u>
Net Assets	
Investment in Capital Assets	53,196
Restricted for	
Fire	33,791
Liquor Law Enforcement	6,463
Unrestricted	<u>122,464</u>
Total Net Assets	<u><u>\$ 215,914</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**ELM RIVER TOWNSHIP--HOUGHTON COUNTY**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**For the Year Ended March 31, 2006**

**EXHIBIT B**

<u>Functions/Programs</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE)</u> <u>REVENUE AND</u> <u>CHANGES IN</u> <u>NET ASSETS</u>
	Expenses	Charges for Services	Operating Grants and Contributions	Total
Primary Government				
Governmental Activities				
General Government	\$ 53,408	\$ 1,783		\$ (51,625)
Public Safety	20,951		\$ 1,650	(19,301)
Public Works	31,301			(31,301)
Other	353			(353)
Total Governmental Activities	<u>\$ 106,013</u>	<u>\$ 1,783</u>	<u>\$ 1,650</u>	<u>\$ (102,580)</u>
General Revenues				
Property Taxes				\$ 81,733
State-Shared Revenues				11,612
Unrestricted Investment Earnings				3,649
Other				2,458
Special Item--Loss on Sale of Land and Building				<u>(288)</u>
Total General Revenues--Special Items and Transfers				<u>99,164</u>
Change in Net Assets				(3,416)
Net Assets--Beginning				<u>219,330</u>
Net Assets--Ending				<u>\$ 215,914</u>

**The Notes to Financial Statements are an integral part of this statement.**

**ELM RIVER TOWNSHIP--HOUGHTON COUNTY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**March 31, 2006**

**EXHIBIT C**

	<b>SPECIAL REVENUE FUNDS</b>			Total Governmental Funds
	General	Fire	Liquor Law Enforcement	
<b><u>ASSETS</u></b>				
Cash	\$ 32,777	\$ 17,314	\$ 6,463	\$ 56,554
Investments	58,478	23,992		82,470
Delinquent Taxes Receivable	2,588	672		3,260
Due From County	18,706			18,706
Due From State	1,922			1,922
Due From Other Funds	15,369	679		16,048
Total Assets	\$ 129,840	\$ 42,657	\$ 6,463	\$ 178,960
<b><u>LIABILITIES AND FUND BALANCE</u></b>				
Liabilities				
Accounts Payable	\$ 968	\$ 635		\$ 1,603
Due to Other Funds	6,288	8,231		14,519
Accrued Liabilities	120			120
Deferred Revenue	21,294	672		21,966
Total Liabilities	28,670	9,538	\$ -	38,208
Fund Balance				
Reserved for				
Fire Services		33,119		33,119
Liquor Law Enforcement			6,463	6,463
Unreserved--Undesignated	101,170			101,170
Total Fund Balance	101,170	33,119	6,463	140,752
Total Liabilities and Fund Balance	\$ 129,840	\$ 42,657	\$ 6,463	\$ 178,960

**The Notes to Financial Statements are an integral part of this statement.**

**ELM RIVER TOWNSHIP--HOUGHTON COUNTY  
RECONCILIATION OF FUND BALANCES ON THE  
BALANCE SHEET FOR GOVERNMENTAL FUNDS  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
ON THE STATEMENT OF NET ASSETS  
March 31, 2006**

**EXHIBIT C-1**

Fund Balances--Total Governmental Funds	\$ 140,752
---	------------

Amounts reported for governmental activities in the Statement of  
Net Assets are different because:

Capital assets used in governmental activities are not financial  
resources and, therefore, are not reported in the funds.

Add--Capital Assets	138,802
Deduct--Accumulated Depreciation	<u>(85,606)</u>

Net Capital Asset Addition	53,196
----------------------------	--------

Revenues that do not provide current financial resources in the current  
fiscal year are not reported as revenue in the funds.

Delinquent Property Taxes	3,260
Payment in-Lieu-of Taxes (PILT)	<u>18,706</u>

Net Assets of Governmental Activities	<u><u>\$ 215,914</u></u>
---------------------------------------	--------------------------

**The Notes to Financial Statements are an integral part of this statement.**

**ELM RIVER TOWNSHIP--HOUGHTON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES--GOVERNMENTAL FUNDS**  
**For the Year Ended March 31, 2006**

**EXHIBIT D**

	<b><u>SPECIAL REVENUE FUNDS</u></b>			Total Governmental Funds
	General	Fire	Liquor Law Enforcement	
Revenues				
Taxes and Penalties	\$ 68,334	\$ 13,198		\$ 81,532
State Grants	11,612		\$ 1,650	13,262
Charges for Services	1,783			1,783
Interest and Rentals	2,889	760		3,649
Other Revenue	61,841	250	79	62,170
Total Revenues	146,459	14,208	1,729	162,396
Expenditures				
Current				
General Government	52,038			52,038
Public Safety		13,728	1,423	15,151
Public Works	31,301			31,301
Other	353			353
Capital Outlay	65,000			65,000
Total Expenditures	148,692	13,728	1,423	163,843
Excess of Revenues Over (Under) Expenditures	(2,233)	480	306	(1,447)
Fund Balance--April 1, 2005	103,403	32,639	6,157	142,199
Fund Balance--March 31, 2006	\$ 101,170	\$ 33,119	\$ 6,463	\$ 140,752

**The Notes to Financial Statements are an integral part of this statement.**



**ELM RIVER TOWNSHIP--HOUGHTON COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended March 31, 2006**

**EXHIBIT D-1**

Net Change in Fund Balances--Total Governmental Funds \$ (1,447)

Amounts reported for governmental activities in the Statement of Activities  
are different because:

Governmental funds report capital outlays as expenditures. However,  
in the Statement of Activities, the costs of those assets are allocated over  
their estimated useful lives and reported as depreciation expense.

Add--Capital Outlay	65,000
Deduct--Depreciation Expense	(7,170)
Deduct--Capital Asset Disposal	(60,000)

Revenues earned but not available for current resources are not reported in the funds.

Delinquent Property Taxes	3,260
Payment in-Lieu-of Taxes (PILT)	18,706

Revenues earned in the prior year are reported in the funds.

Delinquent Property Taxes and Payment in-Lieu-of Taxes (PILT)	<u>(21,765)</u>
---	-----------------

Change in Net Assets of Governmental Activities	<u><u>\$ (3,416)</u></u>
---	--------------------------

**The Notes to Financial Statements are an integral part of this statement.**

**ELM RIVER TOWNSHIP--HOUGHTON COUNTY**  
**STATEMENT OF NET ASSETS**  
**FIDUCIARY FUNDS**  
**March 31, 2006**

**EXHIBIT E**

	Agency Fund	Money Purchase Pension Trust	Total
<hr/>			
<b><u>ASSETS</u></b>			
Cash	\$ 45,139		\$ 45,139
Investments		\$19,265	19,265
Due From Other Funds	7,343		7,343
<hr/>			
Total Assets	\$ 52,482	\$19,265	\$ 71,747
<hr/>			
<b><u>LIABILITIES</u></b>			
Liabilities			
Due to Other Funds	\$ 8,872		\$ 8,872
Undistributed Tax Collections	43,610		43,610
<hr/>			
Total Liabilities	\$ 52,482	\$ -	52,482
<hr/>			
<b><u>NET ASSETS</u></b>			
Held in Trust for Pension Benefits		\$19,265	\$ 19,265
<hr/>			

**The Notes to the Financial Statements are an integral part of this statement.**

**ELM RIVER TOWNSHIP--HOUGHTON COUNTY**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**MONEY PURCHASE PENSION PLAN AND TRUST**  
**For the Year Ended March 31, 2006**

**EXHIBIT F**

**ADDITIONS**

Contributions	
Employer Contributions	<u>\$ 2,158</u>
Total Contributions	<u>2,158</u>
Investment Earnings	
Capital Gain (Loss)	<u>698</u>
Total Investment Earnings	<u>698</u>
Net Investment Earnings	<u>698</u>
Total Additions	<u>2,856</u>

**DEDUCTIONS**

Benefits Paid to Participants and Beneficiaries	<u>          </u>
Total Deductions	<u>-</u>

**CHANGES IN NET ASSETS**

	2,856
Net Assets Held in Trust for Money Purchase Pension Plan	
Beginning of Year	<u>16,409</u>
End of Year	<u><u>\$ 19,265</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

## ELM RIVER TOWNSHIP--HOUGHTON COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Elm River Township (township) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Elm River Township:

##### Reporting Entity

Elm River Township, which covers an area of approximately 93.3 square miles, is located in Houghton County and provides services to approximately 169 residents in many areas including public safety, public works, general administrative services, and community enrichment and development. The township is a general law township, and is governed by a 5-member board elected by the citizens of Elm River Township. The board consists of the supervisor, clerk, treasurer and two trustees whom reside in the community.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the township for financial reporting purposes. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if component unit data were not included. Accordingly, there are no other governmental organizations required to be included in the financial statements of the township.

##### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

## ELM RIVER TOWNSHIP--HOUGHTON COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The township reports the following major governmental funds:

The General Fund is the township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Fire Fund accounts for the township millage revenue that is reserved for the operation of the fire department.

The Liquor Law Enforcement Fund accounts for state liquor license revenue that is restricted for the enforcement of liquor laws.

Additionally, the township reports the following fund type:

Trust and Agency Funds--These funds account for assets held on behalf of outside parties, including other governments and pension trust fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

## ELM RIVER TOWNSHIP--HOUGHTON COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

#### Deposits and Investments

Cash is considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value. Earnings from investments are allocated to numerous funds as required by Federal regulations, State statutes, and local ordinances.

#### Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

#### Property Taxes

Generally accepted accounting principles require revenues to be recognized in the accounting period in which they become measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The township property tax is levied on each December 1<sup>st</sup> on the taxable valuation of property located in the township as of the preceding December 31<sup>st</sup>.

It is the township's policy to recognize revenues in the current year when the proceeds are budgeted and made available for the financing of township operations. Payment from the county for the 2005 delinquent taxes, which it purchased subsequent to March 31<sup>st</sup>, is recorded as delinquent taxes receivable in the General Fund and Fire Fund.

The 2005 taxable value of Elm River Township amounted to \$13,178,351, on which ad valorem taxes of 1.2594 allocated mills, \$16,222 and 1.7571 extra voted mills, \$22,634 were levied for township operating purposes; and .8702 extra voted mills, \$11,208.23 were levied for township fire purposes. These taxes are recorded as revenue on township records in and for the fiscal year ended March 31, 2006, except for the delinquent real taxes, which are recorded as deferred revenue in the governmental funds because they were not received within 60 days after the end of the fiscal year.

# ELM RIVER TOWNSHIP--HOUGHTON COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Capital Assets

Capital assets which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Building	20 to 40 years
Equipment	3 to 10 years
Vehicles	5 to 10 years

#### Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

#### Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

# ELM RIVER TOWNSHIP--HOUGHTON COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### Budgetary Information

The annual budget is prepared by the township supervisor and adopted by the township board after the annual public hearing. The township board approves all subsequent amendments to the budget. The General Fund and special revenue funds are under formal budgetary control. The budget has been prepared on the modified accrual basis, which is in accordance with generally accepted accounting principles. Unexpended appropriations lapse at year end. The budget has been adopted on an activity basis. Budgeted revenues and expenditures include any authorized amendments to the original budget as adopted. The budget adopted does not comply with all requirements established by Public Act 2 of 1968, as amended.

#### Excess of Expenditures Over Appropriation in Budgeted Funds

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

During the year, the township incurred expenditures in certain budgeted funds which were in excess of the amount appropriated, as follows:

<u>Fund, Function and Activity</u>	<u>Final Amended Budget</u>	<u>Actual Expenditures</u>	<u>Excess Expenditures</u>
General Fund			
Capital Outlay	\$ -	\$ 65,000	\$(65,000)

### NOTE C--CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.



# ELM RIVER TOWNSHIP--HOUGHTON COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE C--CASH AND INVESTMENTS (Continued)

The Elm River Township Board has designated four financial institutions for the deposit of township funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The township's deposits and investment policy are in accordance with statutory authority.

At year end, the township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 56,554	\$45,139	\$101,693
Investments	<u>82,470</u>	<u>19,265</u>	<u>101,735</u>
Total	<u><u>\$139,024</u></u>	<u><u>\$64,404</u></u>	<u><u>\$203,428</u></u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 101,693
Investments	<u>101,735</u>
Total	<u><u>\$ 203,428</u></u>

At March 31, 2006, the bank balance of the primary government's deposits is \$116,859, of which \$109,521 is covered by Federal depository insurance.

### Deposits and Investments Authorized by the Township's Investment Policy

The township's investment policy authorizes investment in certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank but only if the bank, savings and loan association, or credit union meets all criteria as a depository of public funds contained in state law. The township's investment policy requires prior approval of the township board for the treasurer to invest in any other investment instruments. In November 2005, the township board amended the investment policy and authorized the treasurer to invest with the Michigan CLASS program administered by MBIA Asset Management.

## ELM RIVER TOWNSHIP--HOUGHTON COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE C--CASH AND INVESTMENTS (Continued)

##### Risk

In accordance with GASB Statement No. 40, deposits and investments also require certain disclosures regarding policies and practices with respect to the risks associated with them. The custodial credit risk, the credit risk and the interest rate risk are discussed in the following paragraphs.

##### Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The township's investment policy requires assets to be diversified to reduce the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s) or a specific class of securities (excluding U.S. Treasury securities and insured certificates of deposits).

##### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. The township's investment policy does not address exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the township's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law does not contain legal requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The township's investment policy does not address exposure to custodial credit risk for investments.

# ELM RIVER TOWNSHIP--HOUGHTON COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE C--CASH AND INVESTMENTS (Continued)

#### Credit Risk

Credit risk is the risk that an issuer or another counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) Michigan law, the township's investment policy, or debt agreements, and the actual rating as of year end for each investment type. The pension life insurance annuity funds do not have a rating provided by a nationally recognized statistical rating organization.

<u>Financial Institution</u>	<u>Investment Type</u>	<u>Rated Investments</u>		
		<u>Fair Value</u>	<u>Credit Rating</u>	<u>Rating Institution</u>
MBIA Class	Money Market Funds	\$ 82,470	AAA	Fitch
Gleaner Life Insurance Annuity		<u>19,265</u>		
	Total	<u><u>\$101,735</u></u>		

#### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The township's return on investment is of secondary importance compared to safety and liquidity objectives. Investments are selected to obtain a market average rate of return. The core of investments is limited to relatively low risk securities. However, the township's investment policy does not address exposure to interest rate risk for deposits and investments.

### NOTE D--RECEIVABLES

#### Receivables--Primary Government

Of the following amounts listed as receivables in the primary government funds, only the due from state amount has been collected within 60 days after year end and is not offset by deferred revenue. The delinquent taxes and due from county amounts were not collected within 60 days after year end and are offset by deferred revenue.

ELM RIVER TOWNSHIP--HOUGHTON COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE D--RECEIVABLES (Continued)

	General Fund	Fire Fund	Total
Taxes	\$ 2,588	\$ 672	\$ 3,260
Due From County	18,706		18,706
Due From State	1,922		1,922
Less: Allowance for Uncollectibles			-
Total	<u>\$23,216</u>	<u>\$ 672</u>	<u>\$23,888</u>

NOTE E--CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	Account Balances 04/01/05	Increases	Decreases	Account Balances 03/31/06
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated				
Land	<u>\$ 1,000</u>	<u>\$ 5,000</u>		<u>\$ 6,000</u>
Subtotal	<u>1,000</u>	<u>5,000</u>	<u>\$ -</u>	<u>6,000</u>
Capital Assets Being Depreciated				
Buildings and Improvements	59,802	60,000	60,000	59,802
Fire Vehicles	<u>73,000</u>			<u>73,000</u>
Subtotal	<u>132,802</u>	<u>60,000</u>	<u>60,000</u>	<u>132,802</u>
Less Accumulated Depreciation				
Buildings and Improvements	36,636	1,370		38,006
Fire Vehicles	<u>41,800</u>	<u>5,800</u>		<u>47,600</u>
Subtotal	<u>78,436</u>	<u>7,170</u>	<u>-</u>	<u>85,606</u>
Net Capital Assets Being Depreciated	<u>54,366</u>	<u>60,000</u>	<u>67,170</u>	<u>47,196</u>
Governmental Activities Capital Total Capital Assets--Net of Depreciation	<u>\$ 55,366</u>	<u>\$ 65,000</u>	<u>\$ 67,170</u>	<u>\$ 53,196</u>

# ELM RIVER TOWNSHIP--HOUGHTON COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE E--CAPITAL ASSETS (Continued)

The depreciation expense was \$7,170 during the year.

Depreciation expense was charged to programs as follows:

Governmental Activities	
General Government	\$ 1,370
Public Safety	<u>5,800</u>
Total Governmental Activities	<u><u>\$ 7,170</u></u>

### NOTE F--INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables between funds of the township are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$15,369	Fire	\$ 7,176
		Current Tax Collection--Fudiciary	8,193
Fire	679	Current Tax Collection--Fudiciary	679
Current Tax Collection--Fudiciary	7,343	General	6,288
	<u>          </u>	Fire	<u>1,055</u>
Total Primary Government	<u><u>\$23,391</u></u>		<u><u>\$23,391</u></u>

The purpose of the interfund balances is to record amounts due to and due from funds for corrections of tax and payments in lieu of taxes distributions. All amounts are expected to be repaid within one year.

### NOTE G--RISK MANAGEMENT

The township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The township participates in the Michigan Township Participating Plan (MTPP). The plan covers general liability, owned/nonowned/hired automobile liability, errors and omissions, property damage, and inland marine. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

## ELM RIVER TOWNSHIP--HOUGHTON COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE G--RISK MANAGEMENT (Continued)

The Michigan Townships Participating Plan (Plan) operates as an insurance purchasing pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis. Individual reserves for each participant are unavailable.

Also, the township carries workers' compensation insurance through Accident Fund. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### NOTE H--DEFINED CONTRIBUTION PENSION PLAN

##### Municipal Retirement Systems, Inc.

On April 1, 2003, the township entered into a restatement of the money purchase pension plan that was originally effective July 15, 1991, as a group flexible annuity contract to provide pension benefits with the annuity effective date as of the publication date of the township pension ordinance. Municipal Retirement Systems, Inc., is the pension plan provider, and the plan is administered by the Elm River Township clerk and supervisor, under section 401(a) of the Internal Revenue Code and is a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is available to all township salaried employees who are 18 years of age or older. All participants are 100% vested upon entry into the plan. Upon employment termination, the vested portion of the accrued benefits is available as a cash payment, or may remain in the plan until retirement.

The plan is fully funded by the township. Annual contributions to the plan equal 12% of the total compensation of all eligible participants. The township's obligation for covered employees (5) for the year ended March 31, 2006 totaled \$2,338. The township paid the required annual contribution.

The contributions to this pension plan are being made in-lieu-of contributions for social security for all eligible participants. In our Schedule of Findings, we have recommended that township officials obtain and retain evidence that documents that compensation of township officials that participate in the township pension plan is not subject to social security taxes.

The township does not receive any financial statements for this plan. The plan provider sends quarterly statements directly to pension plan participants.

## ELM RIVER TOWNSHIP--HOUGHTON COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE H--DEFINED CONTRIBUTION PENSION PLAN (Continued)

##### Met Life

The township entered into a money purchase pension plan that was issued December 18, 1991, as a group choice pension/profit sharing annuity contract to provide pension benefits. Met Life is the pension plan provider. The plan covers a current trustee, a former clerk and a former constable. The township did not contribute any money to this plan during the fiscal year ended March 31, 2006.

#### NOTE I--TREASURER--TAX COLLECTIONS AND DISTRIBUTIONS

The township treasurer maintains a separate Current Tax Collection Account as required by the Accounting Procedures Manual for Local Units of Government. This account should be reduced to zero after the tax collection period is over. At March 31, 2005, there was a balance of over \$33,000 in the tax collection account. A portion of that balance has been identified by the township supervisor to consist of undistributed tax collections from the 2004 tax levy. The 2004 tax levy and collection relate to the township's fiscal year ended March 31, 2005. The township was not required to, and did not have an independent audit performed for the year ended March 31, 2005. At March 31, 2006, there was a balance of over \$45,000 in the tax collection account. Most of that balance has been identified by the township supervisor, including the 2004 taxes described above. We recorded the amount due to the General Fund and Fire Fund for 2005 taxes by audit adjustments. However, part of the identified balance has not yet been disbursed.

#### NOTE J--CHANGE IN ACCOUNTING PRINCIPLE

Effective April 1, 2005, the township implemented several new accounting standards issued by GASB: Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues, which establishes standards for recording nonexchange transactions on the accrual basis of accounting. Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as amended by Statement No. 37, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus, which established new financial reporting standards for state and local governments. This statement requires a significant change in the financial reporting model used by local governments, eliminating contributed capital accounts and utilizing the full accrual basis of accounting and the economic resources measurement focus. Another significant change is the Management Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations and conditions that could have a significant effect on the financial position or results of operations. Statement No. 38, Certain Financial Statement Note Disclosures, which requires certain note disclosures when implementing GASB Statement No. 34.

**ELM RIVER TOWNSHIP--HOUGHTON COUNTY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**For the Year Ended March 31, 2006**

**EXHIBIT G**

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Taxes and Penalties	\$ 61,300	\$ 61,300	\$ 68,334	\$ 7,034
State Grants	12,000	12,000	11,612	(388)
Charges for Services	500	500	1,783	1,283
Interest and Rentals	1,300	1,300	2,889	1,589
Other Revenue	11,000	11,000	61,841	50,841
Total Revenues	86,100	86,100	146,459	60,359
Expenditures				
Current				
General Government	73,530	73,530	52,038	21,492
Public Works	33,282	33,282	31,301	1,981
Other	353	353	353	-
Capital Outlay	-	-	65,000	(65,000)
Total Expenditures	107,165	107,165	148,692	(41,527)
Excess of Revenues Over (Under) Expenditures	(21,065)	(21,065)	(2,233)	18,832
Fund Balance--April 1, 2005	74,906	74,906	103,403	28,497
Fund Balance--March 31, 2006	\$ 53,841	\$ 53,841	\$ 101,170	\$ 47,329



**ELM RIVER TOWNSHIP--HOUGHTON COUNTY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**MAJOR SPECIAL REVENUE FUND**  
**FIRE FUND**  
**For the Year Ended March 31, 2006**

**EXHIBIT H**

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Taxes	\$ 16,667	\$ 16,667	\$ 13,198	\$ (3,469)
Interest	200	200	760	560
Other Revenue	-	-	250	250
Total Revenues	16,867	16,867	14,208	(2,659)
Expenditures				
Public Safety	20,675	20,675	13,728	6,947
Total Expenditures	20,675	20,675	13,728	6,947
Excess of Revenues Over (Under) Expenditures	(3,808)	(3,808)	480	4,288
Fund Balance--April 1, 2005	19,200	19,200	32,639	13,439
Fund Balance--March 31, 2006	\$ 15,392	\$ 15,392	\$ 33,119	\$ 17,727

**ELM RIVER TOWNSHIP--HOUGHTON COUNTY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**MAJOR SPECIAL REVENUE FUND**  
**LIQUOR LAW ENFORCEMENT FUND**  
**For the Year Ended March 31, 2006**

**EXHIBIT I**

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
State Grants	\$ 1,800	\$ 1,800	\$ 1,650	\$ (150)
Other Revenue	-	-	79	79
Total Revenues	1,800	1,800	1,729	(71)
Expenditures				
Public Safety	1,675	1,675	1,423	252
Total Expenditures	1,675	1,675	1,423	252
Excess of Revenues Over (Under) Expenditures	125	125	306	181
Fund Balance--April 1, 2005	6,175	6,175	6,157	(18)
Fund Balance--March 31, 2006	\$ 6,300	\$ 6,300	\$ 6,463	\$ 163

**ELM RIVER TOWNSHIP--HOUGHTON COUNTY**  
**SCHEDULE OF REVENUES--BY SOURCE**  
**BUDGET AND ACTUAL--GENERAL FUND**  
**For the Year Ended March 31, 2006**

**EXHIBIT J**

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
Taxes and Penalties				
Current Property Taxes	\$ 36,000	\$ 36,000	\$ 35,863	\$ (137)
Delinquent Property Taxes	2,200	2,200	2,427	227
Commercial Forest Reserve	5,000	5,000	6,651	1,651
Payment in-Lieu-of Taxes	14,000	14,000	18,706	4,706
Property Tax Administration Fees	4,100	4,100	4,687	587
Total Taxes and Penalties	61,300	61,300	68,334	7,034
State Grants				
Revenue Sharing	12,000	12,000	11,612	(388)
Total State Grants	12,000	12,000	11,612	(388)
Charges for Services				
Cemetery Services	500	500	500	-
Summer Tax Collection	-	-	1,283	1,283
Total Charges for Services	500	500	1,783	1,283
Interest and Rents				
Interest Earned	1,200	1,200	2,889	1,689
Rent	100	100	-	(100)
Total Interest and Rents	1,300	1,300	2,889	1,589
Other Revenues				
Miscellaneous	11,000	11,000	2,129	(8,871)
Sale of Capital Assets	-	-	59,712	59,712
Total Other Revenues	11,000	11,000	61,841	50,841
Total Revenue	\$ 86,100	\$ 86,100	\$ 146,459	\$ 60,359

**ELM RIVER TOWNSHIP--HOUGHTON COUNTY**  
**SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY**  
**BUDGET AND ACTUAL--GENERAL FUND**  
**For the Year Ended March 31, 2006**

**EXHIBIT K**

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
General Government				
Township Board	\$ 29,635	\$ 29,635	\$ 20,624	\$ 9,011
Supervisor/Assessor	16,400	16,400	13,690	2,710
Elections	2,250	2,250	908	1,342
Clerk	6,330	6,330	5,321	1,009
Treasurer	7,715	7,715	7,518	197
Building and Grounds	8,050	8,050	3,518	4,532
Cemetery	3,150	3,150	459	2,691
Total General Government	73,530	73,530	52,038	21,492
Public Works				
Street Lighting	5,500	5,500	5,359	141
Refuse Collection/Disposal	27,782	27,782	25,942	1,840
Total Public Works	33,282	33,282	31,301	1,981
Other				
Other	353	353	353	-
Total Other	353	353	353	-
Capital Outlay	-	-	65,000	(65,000)
Total Capital Outlay	-	-	65,000	(65,000)
Total Expenditures	\$ 107,165	\$ 107,165	\$ 148,692	\$ (41,527)



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

October 7, 2008

Township Board  
Township of Elm River  
32850 Highway M-26  
Toivola, Michigan 49965

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Elm River Township, Houghton County, Michigan, as of and for the year ended March 31, 2006, which collectively comprise Elm River Township's basic financial statements and have issued our report thereon dated October 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Elm River Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Elm River Township's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Elm River Township's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the township's financial statements that is more than inconsequential will not be prevented or detected by the township's internal control. We consider the deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting and are documented as Findings 2006-1 through 2006-18.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the township's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, of the significant deficiencies described above, we consider Findings 2006-1 through 2006-8 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Elm River Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings as Findings 2006-19 through 2006-30.

This report is intended solely for the information of the township board, regulatory agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

October 7, 2008

Township of Elm River  
Board of Trustees  
32850 Highway M-26  
Toivola, Michigan 49965

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Township of Elm River for the year ended March 31, 2006, and have issued our report thereon dated October 7, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our memorandum of understanding dated May 7, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Township of Elm River. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Township of Elm River's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the Township of Elm River. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures to specifically identify such matters.

#### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on May 7, 2007.

#### Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Township of Elm River are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year ending March 31, 2006. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

#### Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.



Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 7, 2008.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Township of Elm River’s Board and management of the Township of Elm River and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

## TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

### SCHEDULE OF FINDINGS Fiscal Year Ended March 31, 2006

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that could adversely affect Elm River Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Elm River Township's financial statements that is more than inconsequential will not be prevented or detected by the township's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that could result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Listed below are material weaknesses and significant deficiencies in the internal control.

The township is small in size. Therefore, there is an overall lack of segregation of duties which should be considered when reviewing the significant deficiencies and other matters listed below. Segregation of duties requires that key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

#### MATERIAL WEAKNESSES

##### Preparation of Financial Statements in Accordance with GAAP

*Finding 2006-1*

*Condition:* As many small and medium-sized governmental entities do, the township has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements, fund financial statements, and notes to financial statements as part of its external financial reporting process. Accordingly, the township's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered to be a part of the township's *internal* controls.

*Cause:* This condition was caused by the township's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for township personnel to prepare them internally.

*Effect:* The township lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this duty.

TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

SCHEDULE OF FINDINGS  
Fiscal Year Ended March 31, 2006

MATERIAL WEAKNESSES (Continued)

*Criteria:* All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both: 1) recording, processing and summarizing accounting data (maintaining internal accounting books and records); and 2) reporting government-wide and fund financial statements, including the related notes to financial statements (external financial reporting).

*Recommendation:* We recommend that the township board evaluate the cost versus benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determine if it is in the best interests of the township to outsource this duty to its external auditors. If the township continues to rely on its external auditors to prepare the financial statements, we recommend the board designate a responsible township official to carefully review the draft financial statements including the notes, prior to approving them and accepting responsibility for their content and presentation.

Material Audit Adjustments

*Finding 2006-2*

*Condition:* During our audit, we identified and proposed numerous material adjustments, which were approved and posted by management, to adjust the township's general ledger to the audited balances. These adjustments included recording the effect of prior year accruals for receivables and payables, recording current year accruals for receivables and payables, balancing interfund transactions and properly allocating tax revenue.

*Effect:* The township accounting records were initially misstated by amounts material to the financial statements.

*Criteria:* Management is responsible for maintaining the township's accounting records in accordance with generally accepted accounting principles (GAAP).

*Recommendation:* We recommend that the township board provide for appropriate training for its accounting personnel so they can attain the necessary skills and expertise to begin to assume the responsibility for properly adjusting and reconciling all township accounts throughout the fiscal year and at fiscal year end to provide more accurate data to the board for decision making and to reduce the cost of the external audit.

TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

SCHEDULE OF FINDINGS  
Fiscal Year Ended March 31, 2006

MATERIAL WEAKNESSES (Continued)

Segregation of Incompatible Duties

*Finding 2006-3*

*Condition:* As is the case with many organizations of similar size, the township lacks a sufficient number of accounting personnel to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have resulted in a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitation on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

*Effect:* The township is exposed to an increased risk that misstatements or misappropriations may occur and not be detected by management on a timely basis.

*Criteria:* Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the township's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the township's unique circumstances.

*Recommendation:* Although it is difficult to balance the costs and benefits of internal controls and the segregation of duties, we nonetheless encourage management to actively seek ways to further strengthen its internal controls by requiring as much independent review, reconciliation and approval of accounting functions by qualified township personnel as possible.

General Ledger, Receipts and Disbursements Registers and General Journal Entries

*Finding 2006-4*

*Condition:* The township's general ledger was not properly maintained, as the data entered contained errors and omissions, and the general ledger itself didn't balance. Debits did not equal credits for the General Fund and Current Tax Collection Fund as of March 31, 2005. For the fiscal year ended March 31, 2005 and until April 20, 2005, former township clerks posted a manual general ledger, receipts and disbursements registers and general journal entries. Subsequent to April 20, 2005, no entries were posted to these manual records. The former clerk that was posting these manual records resigned in June 2005.

# TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

## SCHEDULE OF FINDINGS Fiscal Year Ended March 31, 2006

### MATERIAL WEAKNESSES (Continued)

The clerk's manual general ledger was out of balance at March 31, 2005. Total cash account balances for all township funds per the clerk's general ledger of \$201,342.76 exceeded reconciled bank balances per audit of \$180,719.99 by an unexplained difference of \$20,622.77.

From the combined General Fund checking account reconciliation balance and money market account balance, we determined the General Fund cash balance as of April 1, 2005, the start of our audit period, to be \$71,655.98, which is \$3,250.49 less than the \$74,906.47 balance shown on the clerk's and treasurer's ledgers.

The township supervisor is not responsible for preparing the accounting records. However, because the clerk's general ledger was not being maintained, the supervisor developed and posted accounting records on computer spreadsheets for the fiscal years ended March 31, 2006 and March 31, 2007. The township's accounting system maintained by the township supervisor consisted of some general ledger accounts and receipts and disbursements registers. For audit purposes, we considered the supervisor's records to be the general ledger. However, the computer spreadsheets did not comprise a complete balanced general ledger of all township funds and accounts. Accordingly, several audit adjustments were needed to balance this general ledger. However, we do commend the supervisor for preparing the general ledger and providing us with documentation supporting the audit adjustments.

Because the clerk's manual general ledger was out of balance at March 31, 2005, and both the clerk's general ledger and the treasurer's cash ledger did not agree with actual bank reconciled balances per bank documentation, we calculated the cash balances and initial fund balances for the April 1, 2005 which was the start of our audit period.

*Effect:* Failure to post complete accounting records on a timely basis may result in the following:

1. The financial condition of the township may not be readily determined.
2. The board may not be able to make sound business decisions because it has no financial data on which to make an evaluation.
3. The board may obligate more funds than are available, which is a violation of the Uniform Budgeting and Accounting Act.

*Criteria:* The general ledger is the gathering place for all local unit financial data. Properly maintained, it is a valuable tool of management. The general ledger is the single binder in which all funds and accounts of the township are maintained. Entries in the general ledger are made only from: (1) the receipts register; (2) disbursements register; and (3) the journal entries.

## TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

### SCHEDULE OF FINDINGS Fiscal Year Ended March 31, 2006

#### MATERIAL WEAKNESSES (Continued)

Required procedures for maintaining and balancing the general ledger are explained in detail in Chapter 7--General Ledger/Journal Entries of the Accounting Procedures Manual for Local Units of Government in Michigan, which can be accessed on the Michigan Department of Treasury website under Local Government Services / Accounting Information / Bulletins, Manuals and Forms.

*Recommendation:* We recommend that the township establish monthly procedures to assure that all transactions are posted properly to a general ledger, receipts register and disbursements register and that the general ledger is in balance with the respective subsidiary accounts.

Note: Effective April 1, 2007, the township treasurer began using computer software to establish and maintain a general ledger and supporting accounting records.

#### Reconciliation of the Bank Statements

*Finding 2006-5*

*Condition:* While the bank statements were reconciled by either the treasurer or supervisor, the reconciled bank balances did not agree with the book balance or general ledger, prior to audit adjustments, for the beginning of our audit period March 31, 2005 and as of March 31, 2006.

*Criteria:* According to the Uniform Accounting Procedures Manual, all bank accounts must be reconciled to the local unit accounting records monthly. The clerk's records must agree with or reconcile to the treasurer's and the bank's records.

*Recommendation:* We recommend that the township establish monthly procedures to assure that all transactions are posted properly and the book balance is in balance with the respective bank accounts.

#### Treasurer--Receipts and Deposits

*Finding 2006-6*

*Condition:* Official Receipts were written for most, but not all Current Tax Collection Fund collections.

- The township has not maintained a receipts register since April 20, 2005.
- Receipts were not deposited intact.
- Receipts were not always issued in chronological order.
- Generic or "dime store" type receipts were issued from May 15, 2005 to August 11, 2005 because the township ran out of "Official Receipts." These receipts do not contain the township's name.
- Some receipts lacked account classifications and some receipts had incorrect account numbers. Most receipts did not indicate method of payment.

## TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

### SCHEDULE OF FINDINGS Fiscal Year Ended March 31, 2006

#### MATERIAL WEAKNESSES (Continued)

*Criteria:* Required procedures for cash receipts records and intact deposits of cash receipts are explained in detail in Chapter 4--Cash Receipting Procedures and Chapter 3--Bank And Investment Accounts of the Accounting Procedures Manual for Local Units of Government in Michigan, which can be accessed on the Michigan Department of Treasury website under Local Government Services / Accounting Information / Bulletins, Manuals and Forms.

Required internal control procedures applicable to Elm River Township include:

1. Official receipts must be issued for each collection (except for individual tax collections), whether received from an individual, the state, the county, or another local unit department. Note: A separate tax collection receipts journal must be maintained for tax collections. An official departmental (regular) receipt must be written each time tax collections are deposited.
2. Numerically controlled (printer pre-numbered) official receipts with the name of the local unit and the department name printed on the receipt must be issued for all collections. Official receipts may be manually written or computer generated.
3. The use of generic, store-bought receipts is strictly prohibited.
4. "Cash" or "check" as the method of payment must be indicated on the receipt.
5. The receipt must identify the individual receiving payment.
6. The receipt must allow for immediate revenue account classification in conformance with the Uniform Chart of Accounts.
7. Checks must be restrictively endorsed at the point and time of collection.
8. When possible, someone other than the person who writes receipts or posts the accounting records must be responsible to verify that collections received in the mail are properly receipted.
9. When possible, collections must be reconciled by an individual not involved in the receipting process.

All money must be deposited to financial institutions intact in a timely manner. Intact means that the deposit must include the checks and cash received for a specific numerically sequenced receipt group. Any overage and/or shortage amounts should be deposited and recorded separately along with the receipts. All voided receipts should be kept intact and maintained in sequential order along with the other receipts.

*Recommendation:* We recommend that the township treasurer issue official receipts immediately upon collection and implement the aforementioned procedures. Monthly procedures should include comparing receipts written for the month with the receipts register and with bank deposits.

TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

SCHEDULE OF FINDINGS  
Fiscal Year Ended March 31, 2006

MATERIAL WEAKNESSES (Continued)

Treasurer--Journal Entries

*Finding 2006-7*

*Condition:* The township did not use journal entries during the fiscal year ended March 31, 2006. Receipts were used to record interest credited on bank account statements.

*Criteria:* Receipts should be used only to record collections received in person or by mail. Journal entries should be used to record collections credited directly to bank accounts, such as interest, wire transfers and electronic fund transfers. Journal entries should also be used to record other transactions. Examples include transfers of money from one fund or account to another within the same bank account, establishing certain accounts receivable and accounts payable, corrections of errors and other adjusting entries. Journal entries should be sequentially numbered by year. Each journal entry should contain adequate explanation and supporting documentation, and should have an independent review. Required procedures for journal entries are explained in detail in Chapter 7--General Ledger/Journal Entries of the Accounting Procedures Manual for Local Units of Government in Michigan.

*Recommendation:* We recommend that the township treasurer issue receipts only for collections received in person or through the mail. Sequentially numbered journal entries should be used to account for transfers of funds between bank accounts and interest credited to bank accounts. Journal entries should also be used to make corrections and any other adjusting entries deemed necessary.

Township Board--Capital Assets

*Finding 2006-8*

*Condition:* The township did not maintain adequate internal controls for capital assets. A capital asset subsidiary record was not maintained in accordance with generally accepted accounting principles.

*Criteria:* It is the responsibility of the township to update the capital assets listing for additions and deletions. For the governmental funds, assets purchased during the year are recorded as capital outlay and should equal the additions to the capital asset records. Disposals should equal the reductions to the capital asset records.

*Recommendation:* We recommend that the township develop a property management system that includes all of the following steps:

- 1) An inventory of all capital assets owned by the township should be taken and included in the permanent records of the township and updated annually.



## TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

### SCHEDULE OF FINDINGS Fiscal Year Ended March 31, 2006

#### MATERIAL WEAKNESSES (Continued)

- 2) All assets owned by the township should be permanently labeled in some manner such as permanent individual tags. This will not only facilitate the inventory suggested above, but will also make it more difficult for assets of the township to be removed or used by unauthorized personnel.
- 3) As part of the property management system, the township should keep a record of all assets owned by the township which includes the following information:

-Date of Acquisition	-Date of Disposal (when sold or scrapped)
-Tag Number	-Salvage Value (if any)
-Description of Property	-Life of Asset
-Original Cost of Asset	-Depreciation Method of the Asset
-Location of Asset (including department)	-Accumulated Depreciation of the Asset
	-Net Book Value of the Asset
- 4) Capital assets that meet the township's capitalization policy should be included on the capital asset listing.
- 5) Capital outlay/assets which are purchased under the established capitalization threshold or assets with life expectancy of less than 1 year, regardless of cost, should be classified as a supply or repairs and maintenance expenditure.

Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to capital assets and provide a system of protection for the assets, it will also provide an excellent record for insurance and replacement purposes as well. GASB Statement No. 34 requires capital assets to be included in the financial statements of the township.

#### SIGNIFICANT DEFICIENCIES

##### Treasurer--Audit Trail for Void Receipts

*Finding 2006-9*

*Condition:* All copies of voided receipts were not always retained in the receipt books. Voided receipts did not always include the reason for the void and a reference to the replacement receipt when rewritten.

*Criteria:* Required procedures for voided receipts are explained in Chapter 4--Cash Receipting Procedures of the Accounting Procedures Manual for Local Units of Government.

# TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

## SCHEDULE OF FINDINGS Fiscal Year Ended March 31, 2006

### SIGNIFICANT DEFICIENCIES (Continued)

*Recommendation:* We recommend that all copies of voided receipts be kept intact and include the reason for the void along with a reference to the replacement receipt. The replacement receipt should also include a reference to the voided receipt.

#### Disbursements Process (Vendor and Payroll Checks)

*Finding 2006-10*

*Condition:* Clerk--Lack of Administrative Approval for Disbursements: The township clerk reviews invoices as they are received but does not indicate any administrative approval on the invoices.

*Condition:* Clerk--Approval of Time Sheets: Time sheets are not signed or initialed to indicate evidence of supervisory review.

*Criteria:* Standards of Internal Control for the Federal Government lists *control activities* as one of the five components of internal control. Control activities occur at all levels and include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, and performance reviews. According to the Standards for Internal Control, transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire vendor payment and payroll process from the initiation and authorization through its final classification in summary records. According to the Uniform Accounting Procedures Manual, invoices should contain administrative approval as verification that the invoices (or timesheets) have been properly reviewed and "appropriate documentation that has been reviewed by the proper personnel must be attached for all disbursements." The Uniform Accounting Procedures Manual also requires invoices to provide account classifications in conformance with the Uniform Chart of Accounts.

*Recommendation:* We recommend that the township clerk begin including administrative approval on all invoices as verification that the invoices have been reviewed and that all time sheets (Monthly Salary/Wages and Other Expenses form) be reviewed and signed by the appropriate personnel, and account classifications be included.

#### Numeric Control of Checks

*Finding 2006-11*

*Condition:* Township personnel did not maintain check registers in numerical order. Monthly expense reports did not list checks in numerical order and did not include all check numbers. Most missing check numbers were for checks that replaced voided checks.

*Criteria:* The Michigan Department of Treasury Uniform Accounting Procedures Manual states in part: "Numerically controlled or computer numbered checks must be used."

*Recommendation:* We recommend that all checks, including voided checks, be recorded in numerical order in check registers for each checking account.

TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

SCHEDULE OF FINDINGS  
Fiscal Year Ended March 31, 2006

SIGNIFICANT DEFICIENCIES (Continued)

Disbursements--Inadequate Documentation

*Finding 2006-12*

*Condition:* We found some instances where documentation for disbursements was either inadequate or missing. Examples include a vendor claim paid from a statement, an insurance premium payment with no invoice attached and monthly payments to Waste Management with expense vouchers attached rather than invoices.

*Criteria:* Strong internal controls dictate that original source documentation must be retained to support all disbursements. The Michigan Department of Treasury Uniform Accounting Procedures Manual states in part: "Appropriate documentation must be attached for all disbursements...original bills, not copies must be used for documentation."

*Recommendation:* We recommend that the township retain original invoices, time sheets and any other source documentation for all disbursements and that the original invoices be attached to the check copies.

Treasurer--Cancelled Checks Not Received by the Township

*Finding 2006-13*

*Condition:* The township does not receive cancelled checks or check images for any bank account.

*Criteria:* According to the Uniform Accounting Procedures Manual, cancelled checks which may be electronic optical images must be made available to the local unit in order to comply with the record retention requirement.

*Recommendation:* We recommend the township contact any bank with whom it has a checking account and request that the bank return all checks or provide electronic optical images of the fronts and backs of checks to the township in the future.

Board Minutes--Identification of Bill Payments

*Finding 2006-14*

*Condition:* The board approves bills and payroll at their monthly meetings. The minutes do not indicate the amount of bills and payroll being paid. However, the board is provided with a listing of all bills paid. The minutes do not allow one to trace the bills approved by the board back to the original source documents.

*Criteria:* The minutes are the official record of the board. Board approval of bills should be traceable back to the original records. The Uniform Accounting Procedures Manual states in part: "The governing body must approve the bill list prior to releasing the checks."

*Recommendation:* We recommend that the total amounts of bills and payroll approved for each fund be included in motions to approve bills and a supporting list of bills and payroll approved for each fund be kept on file.

TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

SCHEDULE OF FINDINGS  
Fiscal Year Ended March 31, 2006

SIGNIFICANT DEFICIENCIES (Continued)

Expenditures Charged to the Township Board--Activity 101

*Finding 2006-15*

*Condition:* The township is currently charging wages, supplies, contractual services and utilities which should properly be charged to other activities as board expenditures. We reclassified Street Lights and Refuse Collection/Disposal as separate activities in the General Fund.

*Criteria:* Only expenditures that are directly related to the legislative body such as salaries, travel expenses, advertising, dues and subscriptions, etc., should be charged against this activity.

*Recommendation:* We recommend that only those items that can be directly attributed to the township board be recorded as board expenditures. We recommend that the township use the following activity numbers to classify expenditures in accordance with the Uniform Chart of Accounts: Board of Review-247, Audit Services-223, Street Lights-448, Refuse Collection/Disposal-528, Insurance-851 and Retirement-861.

Management Controls--Monthly Financial Reports

*Finding 2006-16*

*Condition:* Sometime in 2005, the supervisor began providing the township board with printed revenue and expenditure--budget and actual reports for the General, Fire and Liquor Law Enforcement Funds. Prior to that time, we could find no indication that any printed financial reports were provided to the board by any township officials.

*Criteria:* Chapter 8--Internal Accounting and Reporting of the Michigan Department of Treasury Accounting Procedures Manual for Local Units of Government requires that the township board be provided the following reports monthly: 1) Detail Revenue by Fund--Budget and Actual; and 2) Detail Expenditures by Fund--Budget and Actual. The manual also recommends the board be provided the following monthly reports: 1) Summary report of cash activity by fund and by bank account, certificate of deposit and investment account; and 2) a balance sheet by fund.

*Recommendation:* We recommend that the treasurer provide the township board with the reports as listed above.

Employee Personnel Files

*Finding 2006-17*

*Condition:* The township does not have personnel files for any township officials and other employees.

*Effect:* The township has a lack of supporting documentation for some records required by Federal and State governments, for example, the Federal and State income tax withholding to be taken from employee paychecks.

# TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

## SCHEDULE OF FINDINGS Fiscal Year Ended March 31, 2006

### SIGNIFICANT DEFICIENCIES (Continued)

*Criteria:* Employee personnel files are an important internal control to assure that employee information needed for compliance with Federal and State regulations and other matters is readily accessible.

*Recommendation:* We recommend that the township establish and maintain employee personnel files for all current and future employees. The personnel files should include employee information such as date employed, pay rates and position, W-4 form, authorizations for other payroll deductions, termination data where appropriate, etc.

### Generally Accepted Accounting Principles--Treasurer and Clerk--Accruals      *Finding 2006-18*

*Condition:* Accruals (delinquent taxes receivable, due from state and accounts payable) were not recorded for the governmental funds, prior to audit adjustments.

*Criteria:* Generally Accepted Accounting Principles (GAAP) require Governmental funds to be maintained on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Measurable refers to the ability to quantify the amount of the revenue in monetary terms. Current expenditures are generally recorded when the fund liability is incurred, if measurable. GAAP also require that receivables expected to be received within 60 days and accounts payable be recorded at fiscal year end to properly match the fiscal year's revenues and expenses.

*Recommendation:* We recommend that the township record accruals at the end of each fiscal year. The accruals should be reconciled to subsidiary records to support the balances in the respective accounts.

### STATUTORY COMPLIANCE

#### Treasurer--Cash Balances--All Funds and Bank Accounts

*Finding 2006-19*

*Condition:* The treasurer has not maintained an accurate accounting of the receipts, expenditures and cash balances of township money.

The treasurer's cash ledger included records for only the General Fund, Fire Fund and Liquor Fund. We could find no Current Tax Collection Fund records in the treasurer's cash ledger.

General Fund beginning cash balance as of April 1, 2005 determined from the bank reconciliation of \$71,655.98 is \$3,250.49 less than the \$74,906.47 balance shown on the clerk's and treasurer's ledgers.

TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

SCHEDULE OF FINDINGS  
Fiscal Year Ended March 31, 2006

STATUTORY COMPLIANCE (Continued)

Some of the certificates of deposit balances recorded in the treasurer's cash ledger were incorrect at March 31, 2005 and 2006 fiscal year ends. In some instances, it was because the interest posting date was not in the same month interest was credited by the bank.

No entries were posted to the "All Accounts" record in the treasurer's cash ledger after January 2006.

*Criteria:* MCL 41.78 states: "Each township treasurer shall keep an accurate account of the receipts and expenditures of township money in a book, which meets the uniform accounting requirement of the state treasurer. The book shall reflect the amount of money belonging to each of the several funds of the township and shall be delivered to the township treasurer's successor in office. The book...used by the treasurer in the performance of an official function, shall be made available to the public in compliance with the Freedom of Information Act, Act No. 442 of the Public Acts of 1976."

*Directive:* We direct the township treasurer to include all bank accounts in the general ledger of the township and maintain an accurate account of the receipts and expenditures and cash balances of all township money to comply with statutory requirements.

Clerk--General Ledger (Fiscal Years Ended March 31, 2005 and March 31, 2006)

*Finding 2006-20*

*Condition:* The township general ledger was not properly maintained, as explained in Finding 2006-1.

*Criteria:* MCL 41.65 states: "The township clerk shall also open and keep an account with the treasurer of the township, and shall charge the treasurer with all funds that come into the treasurer's hands by virtue of his or her office, and shall credit him or her with all money paid out by the treasurer on the order of the proper authorities of the township, and shall enter the date and amount of all vouchers in a book kept by the township clerk in the office. The township clerk shall be responsible for the detailed accounting records of the township utilizing the uniform chart of accounts prescribed by the state treasurer. The township clerk shall prepare and maintain the journals and ledgers necessary to reflect the assets, liabilities, fund equities, revenues, and expenditures for each fund of the township."

*Directive:* Effective April 1, 2007, with the approval of the township board, the township treasurer began using computer software to post the accounting records, including the general ledger. We direct the township clerk to review the entries made to the general ledger as prepared by the township's treasurer to verify its accuracy.

TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

SCHEDULE OF FINDINGS  
Fiscal Year Ended March 31, 2006

STATUTORY COMPLIANCE (Continued)

Clerk and Treasurer--Chart of Accounts

*Finding 2006-21*

*Condition:* The township's chart of accounts does not conform completely to the "Uniform Chart of Accounts for Counties and Local Units of Government in Michigan" published by the Michigan Department of Treasury.

*Criteria:* The Uniform Chart of Accounts for Counties and Local Units of Government in Michigan has been developed under the authority of Public Act 2 of 1968, as amended, (MCL 141.421) and Public Act 71 of 1919, as amended, (MCL 21.41). The objective of the Uniform Chart of Accounts is to provide a means for the accumulation of financial information which will be uniform for all local units of government.

*Directive:* We direct that responsible township personnel assign fund, activity, and account numbers for all funds, activities and accounts of the township, as required by the "Uniform Chart of Accounts for Counties and Local Units of Government in Michigan" published by the Michigan Department of Treasury.

Credit Card Policy

*Finding 2006-22*

*Condition:* Elm River Township is using credit cards without having a credit card policy adopted.

*Criteria:* Public Act 266 of 1995 requires a local unit to adopt, by **resolution, a written policy** that provides all of the following:

- a) A named officer or employee is responsible for the issuance, accounting, monitoring, retrieval, and generally for overseeing compliance with the credit card policy.
- b) That the credit card may be used only by an officer or employee for the purchase of goods or services for the official business of the local unit.
- c) The officer or employee using the credit card must submit documentation detailing the goods or services purchased, cost, date of the purchase, and the official business.
- d) The officer or employee issued the card is responsible for its protection and custody and shall immediately notify the local unit if the card is lost or stolen.
- e) The officer or employee must immediately surrender the card upon termination.
- f) For a system of internal controls to monitor the use of the credit card.

TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

SCHEDULE OF FINDINGS  
Fiscal Year Ended March 31, 2006

STATUTORY COMPLIANCE (Continued)

- g) Approval of credit card invoices **before** payment.
- h) That the balance including interest due on an extension of credit under the credit card arrangement shall be paid for not more than 60 days of the initial statement date. The local unit shall comply with this provision of the credit card policy.
- i) The policy must provide for disciplinary measures consistent with law for unauthorized use.
- j) Any other matters the governing body considers advisable.

*Directive:* We direct the township to adopt a credit card policy that includes the items listed above.

Electronic Transactions of Public Funds

*Finding 2006-23*

*Condition:* Elm River Township electronically transfers funds between bank accounts with no statutory authority.

*Criteria:* According to MCL 124.303: "A local unit shall not be a party to an ACH arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- a) That an officer or employee designated by the treasurer is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.
- b) That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.
- c) A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- d) The approval of ACH invoices before payment.
- e) Any other matters the treasurer considers necessary."



TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

SCHEDULE OF FINDINGS  
Fiscal Year Ended March 31, 2006

STATUTORY COMPLIANCE (Continued)

*Directive:* We direct that Elm River Township adopt a resolution and a policy to authorize electronic transactions that includes the above mentioned items.

Federal and State Income tax Withholding

*Finding 2006-24*

*Condition:* The township does not withhold any Federal or State income tax from officials and other employees, and does not require employees to complete IRS Form W-4, "Employee's Withholding Allowance Certificate," and the State of Michigan Form MI-W4, "Employee's Michigan Withholding Exemption Certificate."

*Effect:* The township has a lack of supporting documentation for Federal and State income tax withholding that may be required to be deducted from employee paychecks.

*Criteria:* According to IRS and State of Michigan regulations, employees must have a current W-4 and MI-W4 on file for tax withholding purposes.

*Directive:* We direct that the township obtain completed Federal and State W-4 and MI-W4 forms from all current and future employees, and file a copy in each employee's personnel file.

Treasurer--Tax Collections and Distributions

*Finding 2006-25*

*Condition:* The township treasurer maintains a separate Current Tax Collection Account as required by the Accounting Procedures Manual for Local Units of Government. This account should be reduced to zero after the tax collection period is over. At March 31, 2005, there was a balance of over \$33,000 in the tax collection account. A portion of that balance has been identified by the township supervisor to consist of undistributed tax collections from the 2004 tax levy. The 2004 tax levy and collection relate to the township's fiscal year ended March 31, 2005. The township was not required to, and did not have an independent audit performed for the year ended March 31, 2005. At March 31, 2006, there was a balance of over \$45,000 in the tax collection account. Most of that balance has been identified by the township supervisor, including the 2004 taxes described above. We recorded the amount due to the General Fund and Fire Fund for 2005 taxes by audit adjustments. However, part of the identified balance has not yet been disbursed.

*Criteria:* MCL 211.43 requires timely distribution of current tax collections to appropriate township operating funds and local unit treasurers. Chapter 4 of the Accounting Procedures Manual requires that property tax collections be matched with the distributions to the taxing units whose taxes have been collected. To comply with this requirement, the Current Tax Collection Account must be reduced to zero or an imprest balance as soon as possible after tax settlement in March each year.

TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

SCHEDULE OF FINDINGS  
Fiscal Year Ended March 31, 2006

STATUTORY COMPLIANCE (Continued)

*Directive:* We direct that the treasurer disburse all future tax collections in a timely manner to the respective governmental units as prescribed by MCL 211.43.

Further, we recommend that the township board review the list of undistributed taxes that have been identified, but not distributed as of March 31, 2006 and determine what funds should be distributed. For the remaining unidentified balance in the undistributed taxes account in the Current Tax Collection Fund, the board should approve a transfer to or from the General Fund, on a one time basis, to adjust the account to zero or an imprest balance authorized by the township board.

Treasurer--Personal Property Tax Collections

*Finding 2006-26*

*Condition:* 2005 personal property taxes totaling \$161.84 were not collected.

*Criteria:* MCL 211.46 requires the treasurer to demand payment by the end of February, either personally or by mail, of personal property taxes remaining unpaid on February 15. If a person, firm, or corporation neglects or refuses to pay a personal property tax, MCL 211.47 requires the treasurer to seize the personal property in an amount sufficient to pay the tax, fees and charges, for subsequent sale of the property. If the property cannot be sold for want of bidders, the treasurer shall return a statement of that fact and the tax shall be returned as unpaid.

*Directive:* We direct the treasurer to collect all personal property taxes in accordance with the statutory provisions.

Township Board--Violations of Public Act 2 of 1968--Audit

*Finding 2006-27*

Material weaknesses and significant deficiencies in the accounting system of the township are matters which compel the Department of Treasury to require annual audits.

Elm River Township shall obtain annual audits until the deficiencies in the accounting system have been corrected and a complete accounting system has been established and maintained.

OTHER MATTERS

Expenditure Classifications--Posting to Miscellaneous Expenses

*Finding 2006-28*

*Condition:* For fiscal year ending March 31, 2006, \$4,600.60 was classified in account 101-101-969, Township Board--Miscellaneous Expense. These expenses included charges for surveys, maps, assessment notices, stamps, tax preparation, etc.

TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

SCHEDULE OF FINDINGS  
Fiscal Year Ended March 31, 2006

OTHER MATTERS (Continued)

*Criteria:* Miscellaneous expense is often a general ledger account in which very small amounts are recorded. Generally, it is best not to use this account. If another account does not seem appropriate, consider opening a new account to classify the expenses.

*Recommendation:* We recommend that the township discontinue its broad use of miscellaneous expense and classify as little as possible as "Miscellaneous Expense."

Investment Policy

*Finding 2006-29*

*Condition:* The township does not have an updated investment policy that contains credit risk assessments and disclosures for investments as required by GASB Statement No. 40.

*Criteria:* For years beginning after June 30, 2004, GASB Statement No. 40 requires governmental units to have an investment policy that contains investment risk assessments and additional disclosure requirements for investments.

*Recommendation:* We recommend that the township treasurer's office formulate an updated investment policy that includes the requirements of GASB Statement No. 40; and that the township board adopt the new policy.

Pension Plan Participation in Lieu of Social Security

*Finding 2006-30*

*Condition:* Township officials who participate in the township pension plan have not had social security taxes withheld from their salaries, and the township has not contributed the social security matching share. The minutes of the December 15, 2005 township board meeting state "The township employees pension plan vs. social security costs was explained by former clerk, Mike Sabo, wherein it was perceived that the cost of the pension payout was equal to a similar cost for social security. The board could elect either method and had chosen the annuity option."

Township officials were unable to provide authoritative documentation to support the assertion that the plan is in-lieu-of social security.

*Effect:* The elected officials may have under reported income eligible for Social Security.

## TOWNSHIP OF ELM RIVER--HOUGHTON COUNTY

### SCHEDULE OF FINDINGS Fiscal Year Ended March 31, 2006

#### OTHER MATTERS (Continued)

*Criteria:* According to the IRS Public Employer Tax Guide, public employees may be subject to social security tax, either through mandatory withholding, or through the provisions of a Section 218 Agreement. (Note: The township does not have a valid 218 agreement filed with the State of Michigan, and they don't need one according to the Office of Retirement Services, Michigan Department of Management and Budget.) They may be exempt from social security if they are covered by a qualifying public retirement system. A public retirement system is not required to be a qualified plan within the meaning of the Employees' Retirement Income Security Act of 1974 (ERISA). The employee may be a member of any type of retirement system, including a nonqualified system..., as long as the plan provides a minimum level of benefits. In order for a defined contribution retirement system to qualify, the worker must be covered in a plan in which at least 7.5% of his/her income is placed into a retirement plan. This contribution can be any combination of employer and employee contributions, but must total a minimum of 7.5% of his pay. The plan may include any plan described in section 401(a)...of the Internal Revenue Code.

The township also receives an annual notification letter from Municipal Retirement Systems, Inc., the pension plan provider, stating: "We are continuing to provide the Prototype Non-Standardized Money Purchase Pension Plan and Trust for the forthcoming year. Your annual notification is required by IRS Publication 1488 (May 1990). Also included with this Notification letter is our annual edition of 'Commonly Asked Questions' regarding the pension plan." "Commonly Asked Questions" 2006 includes instructions and a sample Notification Letter of Participation. The sample refers to a 401(a) plan. It appears a Notification Letter should have been obtained from each covered employee, and if contributions are in lieu of social security contributions, that fact must be stated in the notification letters. Commonly Asked Questions also states: "The Adoption of the Plan, its qualifications by the IRS, and related tax and legal consequences are the responsibility of the Employer and its independent tax and legal advisors." The township does have on file a July 3, 2002 letter from the IRS stating "An employer that adopts this plan may rely on this letter with respect to the qualification of its plan under Code section 401(a)."

*Recommendation:* We recommend that township officials contact the Social Security Administration and/or legal counsel and obtain and retain evidence that documents that the compensation of township officials who participate in the township pension plan is not subject to social security taxes. We also recommend that township officials obtain and retain on file a notification letter from each covered employee, and if pension contributions are in lieu of social security contributions, that fact be stated in the notification letters.